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Ann D. Berkowitz
Project Manager – Federal Affairs

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Washington, DC 20005
(202) 515-2539
(202) 336-7922 (fax)

December 10, 2002

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Verizon Petition for Forbearance from the Prohibition of Sharing Operating Installation and Maintenance Functions Under Section 53.203 (a)(2) of the Commissions Rules*, CC Docket No. 02-202; *and Section 272 (f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, WC Docket No. 02-112

Dear Ms. Dortch:

Yesterday, E. Shakin and D. May of Verizon met with D. Gonzalez of Commissioner Martin's office. The purpose of the meeting was to reiterate Verizon's position in the above captioned proceedings. The attached material was used during the meeting

Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: D. Gonzalez

Section 272 Forbearance
&
Operating, Installation & Maintenance Obligations

Separate Affiliate Requirement/Nondominance

- No basis to extend the 3-year sunset of the section 272 restrictions
- The Act sunsets the section 272 affiliate requirements by BOC, not by state
- BOC long distance services should remain nondominant regardless of whether the BOC integrates long distance services after sunset
- At a minimum, BOC long distance service should remain nondominant in any state where the BOC meets the same safeguards as independent LECs under section 64.1903, including any changes as a result of the pending rulemaking.

Forbearance from OI&M Restriction
Docket CC 96-149

- The OI&M restriction is not mentioned anywhere in the Act. The Commission created it when it adopted rules to implement the "operate independently" provision in section 272(b)(1).
- When the Commission adopted the OI&M restriction, it did not have a record to conduct a cost-benefit analysis of using structural separation as opposed to accounting safeguards.
- Verizon's has several years of experience with section 272 affiliates and its analysis shows that the OI&M restriction is the major factor in the additional costs caused by the 272 separate affiliate rules. The prohibition:
  - imposes duplicative costs on Verizon's affiliates by requiring them to hire additional personnel to do provisioning and maintenance work that could be done more efficiently by sharing personnel with the BOC
  - requires the affiliate to develop and operate its own operating support systems when the BOCs' OSSs could perform the same tasks with little modification
  - requires the separate affiliate to develop redundant network operating control systems and back office provisioning functions

Forbearance from OI&M Restriction Docket CC 96-149

- Verizon's analysis shows that the costs of complying with the OI&M restriction far outweigh any previously perceived benefits.
  - Verizon has incurred approximately $197 million from 1998 through 2002 to comply with the OI&M restriction, and that it expects to incur an additional $298 million from 2003 through 2006 to comply with this restriction, for a total of $495 million.
  - Verizon could not eliminate all sunk investments if the OI&M restriction were eliminated today, but it could achieve about $183 million in incremental savings from 2003 through 2006.

Forbearance from OI&M Restriction
Docket CC 96-149

- There is no regulatory need for the restriction. BOCs and their section 272 affiliates should be allowed to share OI&M services just as they are permitted to share administrative and other services.
  - There is no fundamental difference between the cost allocations necessary to monitor the sharing of OI&M and services such as finance, human resources, legal and accounting.
  - Positive time reporting can be used as it is used today for nonregulated services such as inside wiring maintenance.
  - Cross-subsidization is not a realistic danger for carriers such as the BOCs who are subject to price-based regulation.
  - Elimination of sharing and adoption of CALLS, which eliminated the need for cost supported SLC and which reduces the X factor to the GDPPI when the average traffic sensitive rate hits the target (which it has in Verizon East and in all but a few study areas in Verizon West) are changed circumstances which avoid the cross-subsidization concerns that the Commission cited in adopting the OI&M restriction.

Forbearance from OI&M Restriction
Docket CC 96-149

- Because of the OI&M restriction, BOCs cannot provide seamless end-to-end services to their customers placing them at a competitive disadvantage, particularly with respect to the large business customers.
  - Problems are exacerbated in the relatively nascent broadband market.
- Verizon has met the standards for forbearance:
  - Enforcement of the OI&M restriction is not necessary to ensure that charges, practices, classifications, or regulations are just and reasonable and are not unjustly or unreasonably discriminatory.
  - Enforcement of the OI&M restriction is not necessary for the protection of consumers.
  - Forbearance from applying the OI&M restriction is consistent with the public interest.

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December 17, 2002

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re· *Verizon Petition for Forbearance from the Prohibition of Sharing Operating Installation and Maintenance Functions Under Section 53.203 (a)(2) of the Commissions Rules*, CC Docket No. 96-149; *and Section 272 (f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, WC Docket No. 02-112

Dear Ms. Dortch:

Yesterday, E. Shakin and D. May of Verizon met with M. Brill of Commissioner Abernathy's office. The purpose of the meeting was to reiterate Verizon's position in the above captioned proceedings. The attached material was used during the meeting

Please let me know if you have any questions.

Sincerely,

Ann D Berkowitz

Attachment

cc: M. Brill

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Operating, Installation & Maintenance Obligations

Separate Affiliate Requirement/Nondominance

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Forbearance from OI&M Restriction
Docket CC 96-149

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- When the Commission adopted the OI&M restriction, it did not have a record to conduct a cost-benefit analysis of using structural separation as opposed to accounting safeguards.
- Verizon's has several years of experience with section 272 affiliates and its analysis shows that the OI&M restriction is the major factor in the additional costs caused by the 272 separate affiliate rules. The prohibition:
  - imposes duplicative costs on Verizon's affiliates by requiring them to hire additional personnel to do provisioning and maintenance work that could be done more efficiently by sharing personnel with the BOC
  - requires the affiliate to develop and operate its own operating support systems when the BOCs' OSSs could perform the same tasks with little modification
  - requires the separate affiliate to develop redundant network operating control systems and back office provisioning functions

Forbearance from OI&M Restriction
Docket CC 96-149

- Verizon's analysis shows that the costs of complying with the OI&M restriction far outweigh any previously perceived benefits.
  - Verizon has incurred approximately $197 million from 1998 through 2002 to comply with the OI&M restriction, and that it expects to incur an additional $298 million from 2003 through 2006 to comply with this restriction, for a total of $495 million.
  - Verizon could not eliminate all sunk investments if the OI&M restriction were eliminated today, but it could achieve about $183 million in incremental savings from 2003 through 2006.

Forbearance from OI&M Restriction
Docket CC 96-149

- There is no regulatory need for the restriction. BOCs and their section 272 affiliates should be allowed to share OI&M services just as they are permitted to share administrative and other services.
  - There is no fundamental difference between the cost allocations necessary to monitor the sharing of OI&M and services such as finance, human resources, legal and accounting.
  - Positive time reporting can be used as it is used today for nonregulated services such as inside wiring maintenance.
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  - Elimination of sharing and adoption of CALLS, which eliminated the need for cost supported SLC and which reduces the X factor to the GDPPI when the average traffic sensitive rate hits the target (which it has in Verizon East and in all but a few study areas in Verizon West) are changed circumstances which avoid the cross-subsidization concerns that the Commission cited in adopting the OI&M restriction.

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Docket CC 96-149

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Dear Ms. Dortch:

Yesterday, E. Shakin and D. May of Verizon met with J. Goldstein of Commissioner Copps's office. The purpose of the meeting was to reiterate Verizon's position in the above captioned proceedings. The attached material was used during the meeting

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Sincerely,

Ann D Berkowitz

Attachment

cc: J. Goldstein

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